

# SENATE BILL REPORT

## SB 5065

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As of January 25, 2007

**Title:** An act relating to interchange and associated fees.

**Brief Description:** Regulating interchange and associated fees.

**Sponsors:** Senator Jacobsen.

**Brief History:**

**Committee Activity:** Financial Institutions & Insurance: 1/24/07.

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### SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

**Staff:** Vanessa Firnhaber-Baker (786-7471)

**Background:** When a consumer uses a debit or credit card to pay for goods or services, the retailer relays a payment request to its bank. The retailer's bank then forwards that request to the bank who issued the card to the consumer. The issuing bank then pays the retailer's bank and the retailer's bank pays the retailer. Both the issuing bank and the retailer's bank keep some portion of the payment. The portion those banks keep are typically called "interchange fees."

The banks use associations (most commonly Visa and MasterCard) to convey the transaction information regarding the cards. For this service, the associations also retain some portion of the consumer's payment for each transaction.

Therefore, the end payment that the retailer receives for the credit card payment is less than the actual amount that the consumer was charged. There are no current regulations, either federal or state, addressing interchange fees.

**Summary of Bill:** "Interchange fees" are defined as the fees that a merchant's financial institution pays to a cardholder's financial institution when a customer uses a credit or debit card as payment during a retail transaction.

The cardholder's financial institution may not charge an interchange fee that is more than 1.5 percent of the total cost of the retail transaction.

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Committee/Commission/Task Force Created:** No.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony:** PRO: It is impossible for merchants to make profits on small transactions because of interchange fees. These fees are not disclosed in any meaningful way to consumers. There is so little competition in the credit card industry that the big players can set fees as high as they like. The banks do not allow for any negotiation on the fees. Merchants cannot just refuse to accept credit cards; their customers demand this payment option. These fees continue to rise every year. European countries have begun to limit interchange fees. Most countries have lower fees than the U.S. does. Merchants are being taxed twice because they pay interchange fees on sales tax.

CON: The state does not have the authority to regulate this area. The only banks that are affected by this bill are state chartered banks; therefore, the cap on interchange fees puts them at a competitive disadvantage. Any savings made by merchants are unlikely to be passed on to the consumer. The financial institutions involved in these transactions are providing a valuable service and should receive compensation.

**Persons Testifying:** PRO: Trent House, Washington Restaurant Association; Jan Gee, Washington Food Industry; Don Ruder, Northwest Grocers.

CON: James Pishue, Washington Bankers Association; Steve Duncan, Mastercard.